

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT

**HOWARD COUNTY POLICE AND FIRE
EMPLOYEES' RETIREMENT PLAN**

JUNE 30, 2011 AND 2010

Howard County Police and Fire
Employees' Retirement Plan

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INDEPENDENT AUDITORS' REPORT

Retirement Plan Committee
Howard County Police and Fire Employees'
Retirement Plan

We have audited the accompanying statements of plan net assets available for benefits of the Howard County Police and Fire Employees' Retirement Plan, a pension trust fund of Howard County, Maryland, as of June 30, 2011 and 2010, and the related statements of changes in plan net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in note 1, the financial statements present only the net assets and changes in net assets of the Plan and are not intended to present the financial position and results of operations of Howard County, Maryland.

In our opinion, the financial statements referred to above present fairly, in all material respects, the plan net assets of the Howard County Police and Fire Employees' Retirement Plan as of June 30, 2011 and 2010, and the changes in plan net assets for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The supplementary information is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. Such required supplementary information, except for the information marked unaudited, has been subjected to the auditing procedures applied in the audit of the financial statements, and in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Baltimore, Maryland
November 30, 2011



Howard County Police and Fire
Employees' Retirement Plan

STATEMENTS OF PLAN NET ASSETS AVAILABLE FOR BENEFITS

June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
ASSETS		
Receivables		
Employer contributions	\$ 1,219,803	\$ 984,434
Employee contributions	392,635	361,666
Interest and dividends	527,580	536,704
Due from sale of investments	480,545	11,954,320
Other	<u>28,116</u>	<u>24,184</u>
Total receivables	<u>2,648,679</u>	<u>13,861,308</u>
Investments, at fair value		
Common stocks	86,486,277	66,436,849
Mutual funds	91,617,914	61,903,928
Money market funds	3,102,867	6,173,853
Fixed income	93,226,071	89,817,655
Real estate funds	<u>13,873,862</u>	<u>11,384,633</u>
Total investments	<u>288,306,991</u>	<u>235,716,918</u>
Prepaid insurance	<u>28,658</u>	<u>45,262</u>
Total assets	<u>290,984,328</u>	<u>249,623,488</u>
LIABILITIES		
Investments purchased	353,132	15,495,640
Accounts payable	<u>296,547</u>	<u>220,696</u>
Total liabilities	<u>649,679</u>	<u>15,716,336</u>
Net assets held in trust for pension benefits (a schedule of funding progress is presented on page 12)	<u><u>\$ 290,334,649</u></u>	<u><u>\$ 233,907,152</u></u>

See notes to financial statements

Howard County Police and Fire
Employees' Retirement Plan

STATEMENTS OF CHANGES IN PLAN NET ASSETS AVAILABLE FOR BENEFITS

Years ended June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
Additions		
Contributions		
Employer	\$ 15,676,918	\$ 14,880,921
Employee	5,712,580	5,452,718
Total contributions	<u>21,389,498</u>	<u>20,333,639</u>
Investment income		
Net appreciation in fair value of investments	40,151,093	23,201,780
Interest	2,519,721	2,573,943
Dividends	5,371,664	2,499,225
Other, net	75,542	23,217
	<u>48,118,020</u>	<u>28,298,165</u>
Less investment expense	<u>1,128,118</u>	<u>955,756</u>
Net investment income	<u>46,989,902</u>	<u>27,342,409</u>
Total additions	<u>68,379,400</u>	<u>47,676,048</u>
Deductions		
Benefits		
Annuities	11,469,408	11,239,513
Death	-	201,613
Refunds of contributions	232,101	127,203
Total benefits	11,701,509	11,568,329
Administration expenses	<u>250,394</u>	<u>222,937</u>
Total deductions	<u>11,951,903</u>	<u>11,791,266</u>
NET CHANGE	56,427,497	35,884,782
Net assets held in trust for pension benefits		
Beginning of year	<u>233,907,152</u>	<u>198,022,370</u>
End of year	<u>\$ 290,334,649</u>	<u>\$ 233,907,152</u>

See notes to financial statements

Howard County Police and Fire
Employees' Retirement Plan

NOTES TO FINANCIAL STATEMENTS

June 30, 2011 and 2010

NOTE 1 - PLAN DESCRIPTION

The Howard County Police and Fire Employees' Retirement Plan (the Plan) is a single-employer defined benefit public employee retirement system established and administered by Howard County (the County), Maryland, to provide defined pension benefits for career firefighters and sworn police officers. The Plan is considered part of the County's financial reporting entity and is included in the County's financial statements as a pension trust fund. The accompanying financial statements present only the operations of the Plan and are not intended to present the financial position and results of operations of the County.

At July 1, 2010 and 2009, the Plan's membership consisted of:

	<u>2010</u>	<u>2009</u>	<u>% Change</u>
Active	813	790	2.9%
Retired and beneficiaries	240	225	6.7%
Disabled and disabled beneficiaries	19	19	0.0%
Terminated vested	<u>17</u>	<u>19</u>	-10.5%
	<u><u>1,089</u></u>	<u><u>1,053</u></u>	3.4%

The Plan was established, is operated, and may be amended under the provisions of the Howard County Code, Sections 1.400 and 1.401A to 1.478A. All of the County's full-time career fire fighters and sworn police officers are eligible to participate in the Plan. The Pension Oversight Commission established by Howard County Section 1.482 provides ongoing assessment and evaluation of the Plan's operations.

The Plan provides retirement benefits as well as death and disability benefits and cost-of-living adjustments. Effective January 1, 2003, employees attaining the age of 62 who have completed five years of eligibility service and employees who have completed 20 years of eligibility service are entitled to a normal retirement benefit. The amount will vary, based on the number of years of creditable service, from 50% (with 20 years of service) to 80% (with 30 years of service) of average compensation for police officers and from 50% (with 20 years of service) to 70% (with 30 years of service) of average compensation for fire fighters.

Howard County Police and Fire
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

Terminated vested employees with less than 20 years of service will receive 2.5% of average compensation times the number of years of creditable service at age 62.

Participants become vested after five years of eligibility service and are entitled to a benefit beginning at age 62. An employee who leaves before becoming vested (5 years) is entitled to a refund of his or her employee contributions with interest. Employee contributions are credited with 5% interest, compounded annually, through the end of the fiscal year in which the employee terminates and 2% interest each year thereafter. For employees who terminated prior to July 1, 2006, contributions earn 5% interest for all years.

A participant who becomes totally and permanently disabled may retire prior to normal retirement and receive a benefit. Both disability and death benefits vary if incurred in the line of duty.

The Plan offers to the qualified active Police Participants a program called Deferred Retirement Option Plan (DROP). This is a voluntary benefit program which offers qualified active Police Participants, who would be entitled to retire and receive benefits, the option to continue working. An individual DROP account is created and is credited with the monthly retirement benefits that would have been paid during the DROP period had the participant actually retired. Adjustments are made for cost-of-living increases awarded to retirees and additional sick leave earned. The payment is made to the employee, in addition to the benefit payment entitled under the defined benefit plan based on the earlier years of service, when the employee eventually retires. Participating members may elect distribution as one lump sum payment, a rollover or in monthly payments.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND PLAN ASSET
MATTERS

Basis of Accounting

The Plan's financial statements are prepared using the accrual basis of accounting. Employer and employee contributions are recognized as revenue in the period in which employee services are performed and expenses and refunds are recorded when the corresponding liabilities are incurred, regardless of when payment is made. Benefits are recorded when the payments are made.

Howard County Police and Fire
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates that affect the reported amounts in the financial statements and accompanying notes. Actual results could differ from those estimates.

Method Used to Value Investments

The Plan's investments are reported at fair market value. Short-term investments consisting of money market funds are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. The fair value of real estate investments is approximated by the net asset value of the Plan's share of ownership of the co-mingled real estate investment funds. Fair value of other securities is determined by the mean of the most recent bid and asked prices as obtained from dealers that make markets in such securities.

Concentration of Credit Risk

The Plan's investment policy does not establish any limitation on the percentage that the Plan may have with any one issuer, other than to state that the Plan's assets are to be diversified in accordance with Modern Portfolio Theory. At June 30, 2011, the Plan had 34.68% of its investments in mutual funds, 6.53% in corporate bonds, and 7.14% in limited partnership units.

Investments Purchased and Due from Sales of Investments

Investment transactions are recorded on a trade plus three days or less timetable resulting in an amount due to and due from State Street Bank at year end.

Risks and Uncertainties

The Plan invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially

Howard County Police and Fire
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

affect participants' account balances and the amounts reported in the statements of net assets available for benefits.

Income Taxes

The Internal Revenue Service issued a determination letter on November 7, 1996, which stated that the Plan and its underlying trust qualify under the applicable provisions of the Internal Revenue Code and therefore are exempt from Federal income taxes. In the opinion of the Plan administrator, the Plan and its underlying trust have operated within the terms of the Plan and remain qualified under the applicable provisions of the Internal Revenue Code.

Subsequent Events

Material subsequent events have been considered for disclosure and recognition in these financial statements through November 30, 2011.

NOTE 3 - CONTRIBUTIONS AND RESERVES

The Plan is authorized to establish or amend the obligations to make contributions under the provisions of the Howard County Code, Sections 1.423A and 1.465A. The Plan's funding policy provides for periodic employer contributions at actuarially determined rates that, expressed as percentages of annual covered payroll, are sufficient to accumulate sufficient assets to pay benefits when due. Fire participants are required to contribute 7.7% of their annual compensation to the Plan. Police participants are required to contribute 11.6% of their annual compensation to the Plan. After 30 years of creditable service, participant contributions are no longer required. The County funds the remainder of the cost of employees' participation in the Plan which was 26.9% of covered payroll in fiscal year 2010. In fiscal year 2011, the County contribution to the Plan was 26.3%, determined through an actuarial valuation performed at July 1, 2010. Expenses incurred in the administration and operation of the Plan are funded by the Plan.

The Plan has not established any legally required reserves; therefore, the net assets are held in trust to fund current and future benefit obligations.

Howard County Police and Fire
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NOTES TO FINANCIAL STATEMENTS - CONTINUED

June 30, 2011 and 2010

NOTE 4 - FUNDED STATUS AND FUNDING PROGRESS

The funded status of the Plan as of July 1, 2010, the most recent actuarial valuation date, is as follows (dollar amounts in millions):

Actuarial Valuation Date of July 1,	(1) Actuarial Value of Plan Assets	(2) Actuarial Accrued Liability (AAL)	(3) Percentage Funded (1)/(2)	(4) Unfunded Actuarial Accrued Liability (UAAL) (2) - (1)	(5) Annual Covered Payroll	(6) UAAL as a % of Covered Payroll
2010	\$ 267.0	\$ 348.7	76.6%	\$ 81.7	\$ 53.3	153.3%

The schedule of funding progress, presented as required supplementary information (RSI) following the notes to financial statements, presents multiyear trend information about whether the actuarial values of Plan assets are increasing or decreasing over time relative to the AALs for benefits. Changes pursuant to the most recent Experience Study are reflected below.

Additional information as of the latest actuarial valuation follows:

Actuarial cost method	Projected unit credit cost method
Amortization method	Level percentage of payroll that increases 3.0% a year
Remaining amortization period	No more than 12 to 23 years, except for actuarial gains and losses and changes in Plan assumptions which are amortized over a 15 year open amortization period, with payments increasing 3.0% a year
Asset valuation method	Five year smoothed market
Actuarial assumptions	
Investment rate-of-return	8%, compounded annually, gross of investment expenses
Projected salary increases	4.5% to 8.25%*
Cost-of-living adjustments	2%, compounded annually

*Includes inflation at 3.0%.

REQUIRED SUPPLEMENTARY INFORMATION

Howard County Police and Fire
Employees' Retirement Plan

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS
(Dollar amounts in millions)
(Unaudited)

June 30, 2011

Actuarial Valuation Date of July 1,	(1) Actuarial Value of Plan Assets	(2) Actuarial Accrued Liability (AAL)	(3) Percentage Funded (1)/(2)	(4) Unfunded Actuarial Accrued Liability (UAAL) (2) - (1)	(5) Annual Covered Payroll	(6) UAAL as a % of Covered Payroll
2005	\$ 157.9	\$ 224.5	70.4%	\$ 66.6	\$ 39.3	169.5%
2006	\$ 180.1	\$ 245.4	73.4%	\$ 65.3	\$ 41.8	156.3%
2007	\$ 210.8	\$ 270.5	77.9%	\$ 59.7	\$ 43.6	136.9%
2008	\$ 238.4	\$ 300.7	79.3%	\$ 62.3	\$ 46.9	132.9%
2009	\$ 253.6	\$ 322.5	78.6%	\$ 68.9	\$ 52.2	132.1%
2010	\$ 267.0	\$ 348.7	76.6%	\$ 81.7	\$ 53.3	153.3%

Notes to Schedule of Funding Progress:

Analysis of the dollar amounts of Plan assets, actuarial accrued liability, and unfunded actuarial accrued liability in isolation can be misleading. Expressing Plan net assets as a percentage of the actuarial accrued liability provides one indication of the Plan's funding status on a going-concern basis. Analysis of this percentage over time indicates whether the Plan is becoming stronger or weaker. Generally, the greater this percentage, the stronger the Plan. Trends in the unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded accrued actuarial liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the Plan's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the Plan.

Howard County Police and Fire
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REQUIRED SUPPLEMENTARY INFORMATION - CONTINUED

SCHEDULE OF EMPLOYER CONTRIBUTIONS
(Unaudited)

June 30, 2011

Years ended June 30,	Annual Required Contributions	Percentage Contributed
2006	\$ 12,217,230	100%
2007	\$ 13,549,204	100%
2008	\$ 14,716,609	100%
2009	\$ 14,426,424	100%
2010	\$ 14,106,449 *	105%
2011	\$ 15,676,918	100%

* The amount funded by the County for the year ended June 30, 2010 was \$14,880,921.